The Fiscal Monitor

A Publication of the Department of Finance

Highlights

December 2006: budgetary surplus of $1.2 billion

There was a budgetary surplus of $1.2 billion in December 2006, up $0.3 billion from the $0.9-billion surplus in December 2005. Budgetary revenues rose $1.4 billion, or 7.6 per cent, due to strong growth in personal and corporate income tax revenues as well as non-tax revenues, dampened by declines in other revenue streams, particularly excise taxes and duties. Program expenses increased by $0.8 billion, or 5.5 per cent, reflecting increases in transfer payments and departmental operating expenses. Public debt charges were up $0.3 billion.

April to December 2006: budgetary surplus of $7.3 billion

The budgetary surplus is estimated at $7.3 billion for the first nine months of the 2006–07 fiscal year, down from the $7.5-billion surplus posted in the same period of 2005–06. Revenues rose $7.8 billion, or 4.9 per cent, reflecting strong growth in income tax revenues and non-tax revenues, partially offset by declines in excise taxes and employment insurance (EI) premium revenues. Program expenses were up $7.9 billion, or 6.3 per cent, due to both higher transfers and other program expenses. Public debt charges were up $0.2 billion.

An update of the 2006–07 budgetary surplus projection will be provided in the budget.

December 2006

There was a budgetary surplus of $1.2 billion in December 2006, up from the $0.9-billion surplus in December 2005.

Budgetary revenues increased by $1.4 billion, or 7.6 per cent, to $19.1 billion.

- Personal income tax revenues rose $0.9 billion, or 9.7 per cent, in December, driven by strong growth in payroll deductions, which in turn reflects economic conditions and a larger than normal number of processing days in the month.
- Corporate income tax revenues rose $0.8 billion, or 32.4 per cent. Corporate income tax revenues can be volatile on a monthly basis, as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place in prior years, can influence results in a given month.
- Other income tax revenues—withholdings from non-residents—declined by $0.1 billion, or 24.2 per cent, reflecting very high levels of withholdings in December 2005.

- Excise taxes and duties declined by $0.4 billion, primarily due to a 14.8-per-cent drop in goods and services tax (GST) revenues, reflecting the 1-percentage-point reduction in the GST rate effective July 1, 2006.
- EI premium revenues declined by 7.9 per cent, reflecting the decline in the premium rate from $1.95 to $1.87 per $100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, return on investments, foreign exchange revenues and miscellaneous revenues, rose $0.2 billion, or 14.3 per cent. This revenue stream is volatile on a monthly basis.

Program expenses in December 2006 were $15.1 billion, up $0.8 billion, or 5.5 per cent, from December 2005, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence.

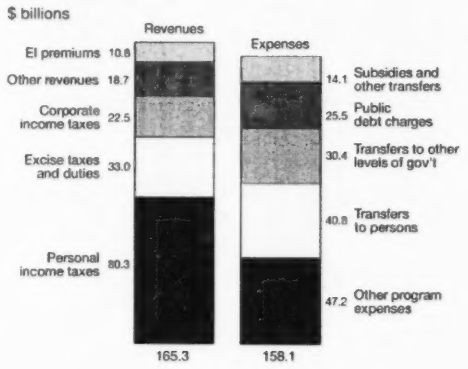
Transfer payments increased by $0.5 billion, or 5.2 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, rose $0.3 billion, or 6.9 per cent. Elderly benefits increased by 5.1 per cent. EI benefits decreased by 2.1 per cent, reflecting declines in both maternity and parental benefits. Children's benefits consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), which began on July 1, 2006. Children's benefits were up $0.2 billion, reflecting transfers under the new UCCB program.
- Transfers to other levels of government, consisting of transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were up $0.3 billion, or 8.5 per cent.
- Subsidies and other transfers decreased by $0.1 billion, or 5.2 per cent.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased by $0.3 billion, or 6.0 per cent, reflecting increases across a number of departments.

Public debt charges increased by $0.3 billion, reflecting an increase in the average effective interest rate on the stock of interest-bearing debt.

Revenues and expenses
(April to December 2006)



April to December 2006

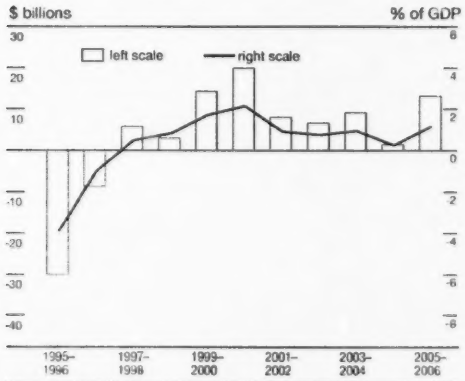
In the first nine months of the fiscal year, there was a budgetary surplus of $7.3 billion, down $0.2 billion from the $7.5-billion surplus reported in the same period of 2005–06.

Budgetary revenues were up $7.8 billion, or 4.9 per cent, to $165.3 billion.

- Personal income tax revenues rose $6.8 billion, or 9.3 per cent, reflecting solid growth in employment and wages and salaries combined with the progressivity of the personal income tax system.
- Corporate income tax revenues increased by $2.5 billion, or 12.4 per cent, reflecting a higher corporate instalment payment base, which in turn reflects profit growth in 2005 and 2006. The corporate results to date are not necessarily indicative of the eventual outcome for the fiscal year as a whole. Roughly half of corporate income tax revenues comes from corporations with year-ends in December, which results in some 40 per cent, on average, of corporate income tax revenues being received in the final three months of the fiscal year, when these corporations must make settlement payments in respect of any differences between their actual tax liabilities for the year and their instalment payments. Consequently, results for even the first nine months of the fiscal year can differ markedly from the final, full-year outcome.
- Other income tax revenues rose $0.6 billion, or 20.1 per cent, boosted by a one-time payment in November 2006 related to the disposition of Canadian assets by a non-resident firm.
- Excise taxes and duties declined by $2.3 billion, or 6.4 per cent, primarily due to a $2.3-billion drop in GST revenues, reflecting the impact of the July 1, 2006, GST rate reduction. Sales and excise tax revenues decreased by $0.1 billion, or 1.3 per cent. Customs import duties rose $0.1 billion, or 3.4 per cent, while revenues from the Air Travellers Security Charge were up $11 million.
- EI premium revenues declined by 7.4 per cent, reflecting the decline in the premium rate from $1.95 to $1.87 per $100 of insurable earnings, effective January 1, 2006, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective the same date.
- Other revenues rose $1.0 billion, or 7.2 per cent.

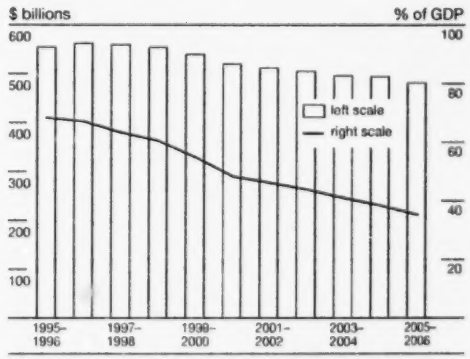
Program expenses in the April-to-December 2006 period were $132.6 billion, up $7.9 billion, or 6.3 per cent, from the same period of 2005–06, due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by $0.2 billion.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Transfer payments, which account for about two-thirds of total program expenses, increased by $4.6 billion, or 5.7 per cent.

- Transfers to persons grew by 5.3 per cent. Elderly benefits rose 4.8 per cent while EI benefits declined by 3.7 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in maternity and parental benefits, which have decreased due to the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province, effective January 1, 2006. Children's benefits increased by 19.8 per cent, reflecting transfers under the new UCCB program, which began on July 1, 2006.
- Transfers to other levels of government were up $2.1 billion, or 7.3 per cent, largely due to the impact of the 2004 agreement on health care, as well as a $650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by $0.5 billion, or 3.7 per cent, largely reflecting an increase in agricultural assistance.

Other program expenses increased by $3.2 billion, 7.4 per cent, due to an increase in the operating costs of departments and agencies as well as a one-time increase in September 2006 in the Government's estimated pension liabilities.

Public debt charges were up 0.7 per cent, primarily due to an increase in the average effective interest rate on the stock of interest-bearing debt.

Financial source of $4.0 billion for April to December 2006

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a requirement of $3.3 billion in the April-to-December period, reflecting payments made to provinces and international organizations pursuant to Bill C-48. This is down from a $7.1-billion requirement in the same period of 2005–06. The decrease in the requirement largely reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board in 2005–06.

With a budgetary surplus of $7.3 billion and a requirement of $3.3 billion from non-budgetary transactions, there was a net financial source of $4.0 billion in the first nine months of 2006–07 compared to a net financial source of $0.4 billion in the same period of 2005–06.

Net financing activities down $17.9 billion

The Government used this net financial source of $4.0 billion and a reduction in its cash balances of $13.9 billion to reduce its market debt by $17.9 billion by the end of December 2006, largely through a reduction of treasury bills, marketable bonds and foreign currency borrowings. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of December stood at $4.1 billion.

Table 1
Summary statement of transactions

	December		April to December	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary transactions				
Revenues	17,771	19,127	157,538	165,315
Expenses				
Program expenses	-14,336	-15,127	-124,728	-132,583
Public debt charges	-2,521	-2,827	-25,310	-25,477
Budgetary balance (deficit/surplus)	914	1,173	7,500	7,255
Non-budgetary transactions	965	54	-7,055	-3,260
Financial source/requirement	1,879	1,227	445	3,995
Net change in financing activities	-4,398	-10,504	-13,095	-17,887
Net change in cash balances	-2,519	-9,277	-12,650	-13,892
Cash balance at end of period			4,509	4,067

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	December			April to December		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	9,155	10,044	9.7	73,494	80,296	9.3
Corporate income tax	2,512	3,325	32.4	19,974	22,450	12.4
Other income tax	530	402	-24.2	3,214	3,859	20.1
Total income tax	12,197	13,771	12.9	96,682	106,605	10.3
Excise taxes and duties						
Goods and services tax	2,160	1,841	-14.8	25,157	22,877	-9.1
Customs import duties	265	251	-5.3	2,592	2,680	3.4
Sales and excise taxes	814	778	-4.4	7,272	7,179	-1.3
Air Travellers Security Charge	26	25	-3.8	257	268	4.3
Total excise taxes and duties	3,265	2,895	-11.3	35,278	33,004	-6.4
Total tax revenues	15,462	16,666	7.8	131,960	139,609	5.8
Employment insurance premiums	802	739	-7.9	11,704	10,840	-7.4
Other revenues	1,507	1,722	14.3	13,874	14,866	7.2
Total budgetary revenues	17,771	19,127	7.6	157,538	165,315	4.9

Note: Totals may not add due to rounding.

Table 3
Budgetary expenses

	December			April to December		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,442	2,566	5.1	21,693	22,745	4.8
Employment insurance benefits	1,154	1,130	-2.1	10,144	9,765	-3.7
Children's benefits	782	985	26.0	6,930	8,304	19.8
Total	4,378	4,681	6.9	38,767	40,814	5.3
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	14,250	15,105	6.0
Canada Social Transfer	686	708	3.2	6,169	6,375	3.3
Total	2,269	2,386	5.2	20,419	21,480	5.2
Fiscal transfers	1,044	1,128	8.0	9,536	9,984	4.7
Canada's cities and communities	167	204	22.2	561	548	-2.3
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-261	-226	-13.4	-2,200	-2,281	3.7
Total	3,219	3,492	8.5	28,316	30,381	7.3
Subsidies and other transfers						
Agriculture and Agri-Food	164	330	101.2	1,060	1,701	60.5
Foreign Affairs and International Trade	215	265	23.3	1,604	1,576	-1.7
Health	137	111	-19.0	1,320	1,372	3.9
Human Resources and Social Development	100	108	8.0	1,145	1,186	3.6
Indian Affairs and Northern Development	380	448	17.9	3,619	3,553	-1.8
Industry	205	266	29.8	1,452	1,518	4.5
Other	503	87	-82.7	3,442	3,236	-6.0
Total	1,704	1,615	-5.2	13,642	14,142	3.7
Total transfer payments	9,301	9,788	5.2	80,725	85,337	5.7
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	110	56	-49.1	978	946	-3.3
Canada Mortgage and Housing Corporation	170	155	-8.8	1,536	1,510	-1.7
Other	322	360	11.8	2,476	2,578	4.1
Total	602	571	-5.1	4,990	5,034	0.9
Defence	1,226	1,375	12.2	10,766	11,627	8.0
All other departments and agencies	3,207	3,393	5.8	28,247	30,585	8.3
Total other program expenses	5,035	5,339	6.0	44,003	47,246	7.4
Total program expenses	14,336	15,127	5.5	124,728	132,583	6.3
Public debt charges	2,521	2,827	12.1	25,310	25,477	0.7
Total budgetary expenses	16,857	17,954	6.5	150,038	158,060	5.3

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	December		April to December	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary balance (deficit/surplus)	914	1,173	7,500	7,255
Non-budgetary transactions				
Capital investing activities	-343	-283	-1,514	-1,572
Other investing activities	-1	1,680	-2,387	-954
Pension and other accounts	241	469	-308	3,853
Other activities				
Accounts payable, receivables, accruals and allowances	-977	-1,652	-7,468	-8,050
Foreign exchange activities	1,769	-380	2,313	1,205
Amortization of tangible capital assets	276	220	2,309	2,258
Total other activities	1,068	-1,812	-2,846	-4,587
Total non-budgetary transactions	965	54	-7,055	-3,260
Net financial source/requirement	1,879	1,227	445	3,995

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	December		April to December	
	2005	2006	2005–06	2006–07
	($ millions)			
Net financial source/requirement	1,879	1,227	445	3,995
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-6,582	-8,642	-7,992	-5,088
Treasury bills	2,400	-3,200	-100	-6,900
Canada Savings Bonds	-423	-69	-1,368	-1,877
Other	-9	-27	-205	-1,160
Total	-4,614	-11,938	-9,665	-15,025
Foreign currency borrowings	367	26	-3,131	-3,938
Total	-4,247	-11,912	-12,796	-18,963
Cross-currency swap revaluation	-43	1,117	-70	1,335
Unamortized discounts on debt issues	-111	297	-295	-190
Obligations related to capital leases	3	-6	66	-69
Net change in financing activities	-4,398	-10,504	-13,095	-17,887
Change in cash balance	-2,519	-9,277	-12,650	-13,892

Note: Totals may not add due to rounding.

Table 6
Condensed statement of assets and liabilities

	March 31, 2006	December 31, 2006	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	101,432	92,217	-9,215
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	256,046	-5,088
Treasury bills	131,597	124,697	-6,900
Canada Savings Bonds	17,342	15,465	-1,877
Other	3,102	1,942	-1,160
Subtotal	413,175	398,150	-15,025
Payable in foreign currencies	14,085	10,147	-3,938
Cross-currency swap revaluation account	-2,258	-923	1,335
Unamortized discounts and premiums on market debt	-6,780	-6,970	-190
Obligations related to capital leases	2,927	2,858	-69
Total unmatured debt	421,149	403,262	-17,887
Pension and other accounts			
Public sector pensions	131,062	133,817	2,755
Other employee and veteran future benefits	43,369	44,584	1,215
Other pension and other accounts	5,493	5,376	-117
Total pension and other accounts	179,924	183,777	3,853
Total interest-bearing debt	601,073	587,039	-14,034
Total liabilities	702,505	679,256	-23,249
Financial assets			
Cash and accounts receivable	82,843	67,786	-15,057
Foreign exchange accounts	40,827	39,622	-1,205
Loans, investments and advances (net of allowances)	41,889	42,843	954
Total financial assets	165,559	150,251	-15,308
Net debt	536,946	529,005	-7,941
Non-financial assets	55,447	54,761	-686
Federal debt (accumulated deficit)	481,499	474,244	-7,255

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